INTERNATIONAL ECONOMIC REVIEW

United States International Trade Commission
Office of Economics

Washington DC
20436

September 1989

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UNITED STATES
INTERNATIONAL
TRADE COMMISSION

OFFICE OF ECONOMICS

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The *International Economic Review* is a monthly staff publication of the Office of Economics, U.S. International Trade Commission. The opinions and conclusions it contains are those of the authors and do not necessarily reflect the views of the Commission or of any individual Commissioner. The *Review* is produced as part of the Commission's international trade monitoring program. Its purpose is to keep the Commission informed about significant developments in international economics and trade, and to maintain the Commission's readiness to carry out its responsibility to provide technical information and advice on international trade matters to policymakers in the Congress and the Executive branch. The *Review* is available to Government officials outside the Commission on a request basis. Inquiries or comment on items appearing in the *Review* may be made directly to the author, or to:

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INTERNATIONAL ECONOMIC COMPARISONS

The U.S economy continued its expansion amid conflicting signs of slowdown and strong growth. On the down side, reports by the U.S. Department of Commerce showed that business inventories rose 0.4 percent and sales declined 0.3 percent in June. A recent survey conducted by the National Association of Purchasing Management (NAPM) also pointed to a slowdown in productivity and new orders. The NAPM index, a barometer of general economic conditions, declined to its lowest level in 6 years, to 46.0 percent in July from 48.8 percent in June. (According to the NAPM report, an index level of 50.0 percent predicts a decline in manufacturing output and a level below 44.0 percent indicates negative real GNP growth.)

On the up side, the merchandise trade deficit fell to its lowest level in 4 years to $8.2 billion in June from $10.1 billion in May. The industrial production index, compiled by the Federal Reserve, rose by 0.2 percent in July following declines in May and June. The Commerce Department reported that housing starts rose 0.8 percent in July following a decline for four consecutive months.

Economic Growth

The annualized rate of real economic growth during the second quarter of 1989 was 1.7 percent in the United States. The latest available data indicate that the annualized rate of real growth in the first quarter of 1989 was 1.4 percent in the United Kingdom, 3.8 percent in Canada, 4.8 percent in France, and 12.0 percent in West Germany. The annualized rate of real economic growth was 6.1 percent during the third quarter of 1988 in Italy, and was 3.0 percent during the fourth quarter in Japan.

Industrial Production

U.S. industrial production rose 0.2 percent in July following a decline of 0.1 percent in June. Output of total materials and business equipment excluding motor vehicles strengthened, whereas output of automobiles and trucks fell sharply. Output of construction supplies remained weak. Production of durable consumer goods declined 2.5 percent in July due to the decline in car and truck production. Output of manufacturing rose slightly in July due to gains in nondurable industries production. U.S. industrial production in July 1989 was 2.7 percent higher than it was in July 1988.

Capacity utilization in manufacturing, mining, and utilities stood at 83.6 percent in July 1989, the same as that in June. The operating rate of manufacturing in July dropped 0.1 percent to 83.9 percent because of the drop in auto assemblies utilization. Also, utilization rates in primary metals have fallen because of the declines in utilization rates at steel mills. Aerospace and miscellaneous transportation equipment have maintained high output levels due to the increase in the production of civilian aircraft.

Other major industrial countries reported the following annual growth rates of industrial production. During the year ending June 1989, Japan reported an increase of 7.4 percent; during the year ending May 1989, Canada reported an increase of 1.6 percent; France reported an increase of 4.7 percent; West Germany reported an increase of 2.6 percent; and the United Kingdom reported a decrease of 1.3 percent; and during the year ending April 1989, Italy reported an increase of 2.8 percent.

Prices

The seasonally adjusted U.S. Consumer Price Index increased 0.2 percent from June to July 1989, and increased by 5.0 percent for the year ending July 1989. The index has increased at an annual rate of 5.2 percent over the past six months.

During the 1-year period ending in July 1989, consumer prices increased 7.0 percent in Italy. During the year ending in June, consumer prices increased 3.0 percent in Japan, 5.4 percent in Canada, 8.3 percent in the United Kingdom, and 3.6 percent in France.

Employment

The seasonally adjusted rate of unemployment in the United States (on a total labor-force basis, including military personnel) remained at 5.2 percent in July, unchanged from June 1989. The national statistical offices of other countries reported the following unemployment rates in June 1989: Japan, 2.2 percent; Canada, 7.3 percent; West Germany, 7.9 percent; Italy, 16.5 percent; and the United Kingdom, 6.3 percent. France reported an unemployment rate of 9.9 percent in May 1989. For foreign unemployment rates adjusted to U.S. statistical concepts, see the tables at the end of this issue.

Forecasts

Table 1 shows newly revised macroeconomic projections for the U.S. economy in July–December 1989 and January–June 1990, by four major forecasters, and the simple average of these forecasts. The forecasts represent percentage

Table 1
Projected quarterly percentage changes in selected U.S. economic indicators, 1989-90

Indicators and quarter	Data Resources Inc.	Merrill Lynch Economics Inc.	Wharton F.A. Inc.	UCLA Business Forecasting Project	Mean of 4 indicators and forecasts
GNP (current dollars):					
1989:					
July-September	4.7	4.7	5.8	4.7	5.0
October-December	5.0	4.2	5.9	5.0	5.0
1990:					
January-March	5.4	6.3	6.8	5.4	6.0
April-June	5.5	7.0	7.7	5.5	6.4
GNP (constant dollars):					
1989:					
July-September	1.4	-0.3	1.4	1.4	1.0
October-December	1.3	-0.6	1.3	1.3	0.8
1990:					
January-March	0.7	1.5	1.9	0.7	1.2
April-June	1.6	2.5	3.4	1.6	2.3
GNP deflator index:					
1989:					
July-September	3.2	5.1	4.4	3.2	4.0
October-December	3.7	4.8	4.5	3.7	4.2
1990:					
January-March	4.7	4.7	4.8	4.7	4.7
April-June	3.8	4.4	4.1	3.8	4.0
Unemployment, average rate:					
1989:					
July-September	5.3	5.3	5.4	5.3	5.3
October-December	5.4	5.7	5.6	5.4	5.5
1990:					
January-March	5.5	6.0	5.8	5.5	5.7
April-June	5.6	6.0	5.8	5.6	5.7

Note.—Percentage changes in the forecast represent compounded annual rates of change from preceding period. Quarterly data are seasonally adjusted. Month of forecast, June 1989.
Source: Compiled from data received by telephone from the Conference Board, *Statistical Bulletin*. Used with permission.

changes over the preceding quarterly period at annual rates except for unemployment, which are simply the average annual rates. The average forecast is for a slight decline in nominal and real GNP growth rates starting the third quarter of 1989 followed by an improvement in the first six months of 1990, and a slight increase in the unemployment rate. The causes of the predicted economic slowdown are a projected moderation in the pace of consumer spending because of slower income growth, and a decline in export growth as the dollar appreciates in response to relatively higher U.S. interest rates and the softening of economic conditions abroad. Inflation (measured by the GNP deflator index) is expected to rise in both the fourth quarter of 1989 and the first quarter of 1990 and then moderate in the second quarter.

U.S. TRADE DEVELOPMENTS

The seasonally adjusted U.S. merchandise trade deficit declined to its lowest level in four years, to $8.2 billion in June from $10.1 billion in May. The June deficit was 14.6 percent lower than the $9.6 billion average monthly deficit registered during the previous 12-month period, and was 22.7 percent lower than the $10.6 billion deficit registered in June 1988.

U.S. imports dropped 3.5 percent in June to $39.1 billion from $40.5 billion in May, whereas exports rose by 1.5 percent to a record high of $30.9 billion from $30.5 billion in May.

By end use, import declines concentrated in the categories of foods, feeds, and beverages (7.6 percent), automotive products (6.4 percent), capital goods (4.3 percent), and industrial supplies and materials (3.3 percent). Gains in exports concentrated in capital goods (7.1 percent), nonautomotive consumer goods (9.1 percent), and industrial supplies and materials (1.2 percent).

Meanwhile, the U.S. agricultural trade surplus remained almost unchanged at $1.4 billion. In addition, the U.S. oil import bill declined from $4.8 billion in May to $4.3 billion in June because of the decline in oil prices and the decline in the volume of imports.

On a regional basis, the United States experienced improvements from May to June in its merchandise trade deficits with Canada (from $721 million to $569 million), with Japan (from $4.3 billion to $3.9 billion), with the East Asian Newly Industrialized Economies (NIEs) (from

$2.0 billion to $1.8 billion), with Mexico (from $452 million to $99 million) and with OPEC (from $1.8 billion to $1.7 billion).

However, U.S. trade deficits either widened or U.S. trade surpluses narrowed with most other areas. The U.S. deficit with Western Europe increased from $78 million to $225 million. The U.S. deficit with Eastern Europe and selected nonmarket economy areas widened from $29 million to $373 million. This occurred mainly as a result of the widening of the U.S. trade deficit with China, from $462 million to $661 million, and the decline in the U.S. trade surplus with the U.S.S.R., from $401 million to $323 million. The trade deficit with Taiwan increased from $1.1 billion to $1.2 billion. Meanwhile, the U.S. trade surplus with Egypt narrowed from $204 million to $159 million, and the surplus with the EC narrowed from $109 million to $44 million.

INTERNATIONAL TRADE DEVELOPMENTS

Administration to Phase Out Steel VRAs

The Bush administration acted on July 25 to begin a "steel trade liberalization program," designed to phase out existing restraints on steel imports by March 31, 1992. In the meantime, the administration will try to phase out existing voluntary restraint arrangements (VRAs) in an "orderly manner," and to negotiate "an international consensus to remove unfair trade practices." The time period is designed to allow more time for the U.S. steel industry to adjust to import competition.

The major element of the program is negotiating transitional VRAs. These agreements will extend existing VRAs for two and one-half years. The limit on steel imports from VRA countries will rise by 1 percentage point per year during that period. VRAs currently limit steel imports to about 18 percent of U.S. apparent consumption of steel. The annual increases will be allocated among countries that follow multilateral or bilateral disciplines regarding unfair trade practices and market access.

Another part of the program includes a U.S. effort to negotiate an international consensus for "fair and open" steel trade. The aim of such negotiations will be to establish "effective disciplines" over trade-distorting subsidies, and reductions in tariffs and nontariff barriers to steel trade. These negotiations are to take place in the Uruguay Round of GATT negotiations and bilaterally.

Certain U.S. steelmakers were disappointed that the VRAs were not extended for 5 years, arguing that the shorter time period will not provide enough opportunity to continue modernization efforts. Sen. John Heinz (R-PA) also criticized the time period for the program arguing that "the President's negotiators only have 30 months to achieve a goal that has eluded us for 20 years." A representative of steel users, however, praised the decision. Jon Jenson of the Coalition of American Steel Using Manufacturers said "we believe the president's decision is a reasonable compromise between the interests of U.S. steel producers and U.S. steel users."

The steel import program began on September 18, 1984, when President Reagan determined, following a section 201 (escape clause) investigation, that import relief for the steel industry was not in the national economic interest. However, the President established a nine-point program designed to assist the steel industry in competing with imports. One element of this program was negotiation of VRAs valid through September 30, 1989, with countries "whose exports to the United States increased significantly in recent years due to an unfair surge in imports." VRAs currently limit imports from 19 countries and the EC.

United States and European Community May Be Headed for A New Hormones Dispute

A proposal to ban the use of the dairy-enhancing hormone bovine somatotropin (BST) until the end of 1990 is currently being considered by the EC Commission, the body responsible for formally proposing new regulations that can eventually become Community-wide law. Use of BST in dairy cattle can increase their milk yields by 15 to 25 percent. The principal purpose of the ban is to allow more time for internal study of the substance. The EC Commission decided at its August 2 meeting to temporarily delay further action on the proposal. This step was taken against a backdrop of internal dissension among EC states regarding the hormone's use as well as opposition to the proposed moratorium by U.S. Agriculture Secretary Clayton Yeutter and United States Trade Representative Carla A. Hills. The initiative is expected to be considered again in early September.

BST is currently being reviewed for use by the U.S. Food and Drug Administration (FDA) as well as by the EC Committee on Veterinary Medicines and Pharmaceuticals. Unlike the growth hormones already subject to an EC moratorium (see *IER*, January, March, and June issues), BST occurs naturally in cattle. It is not a steroid hormone and has no biological action in humans. BST has so far been officially approved for use in South Africa, the Soviet Union, Czechoslovakia, and India.

U.S. Government officials are particularly concerned over the EC's use of a new justification in considering the moratorium—the so-called fourth criterion, which allows socioeconomic considerations to become a relevant factor in deciding whether or not to adopt the ban. The traditional criteria used to judge veterinary substances for use in livestock are safety, quality, and effectiveness. U.S. officials oppose extension of the fourth criterion to the BST debate on grounds that only scientific criteria should constitute legitimate considerations in assessing the use of new substances. The United States fears that the EC, under pressure from consumer and agricultural groups, could use the fourth criterion to justify enactment of a BST ban absent scientific evidence of the substance's harmfulness to humans, cattle, or dairy products. Two U.S. firms, Eli Lilly and the Monsanto Co., have spent hundreds of millions of dollars developing the growth hormone. If enacted, a BST moratorium would most likely affect U.S. exports to the EC more indirectly than directly, however, both Eli Lilly and Monsanto plan to manufacture the product in Europe.

U.S. officials are also concerned that proposals like the BST moratorium could have a dampening effect on future study in biotechnological areas as well as on implementation of conclusive findings resulting from such studies. Further, Agriculture Secretary Clayton Yeutter has stated that EC enactment of the ban would contravene international attempts being conducted through the General Agreement on Tariffs and Trade (GATT) to liberalize world farm trade. One goal of the GATT talks is to ensure that restrictions designed to protect the health of humans, plants, or animals are not merely disguised trade barriers but are enacted on the basis of sound scientific evidence. Studies conducted on BST to date have uncovered no scientific basis for safety concerns. The FDA determined several years ago that milk and beef products from BST-treated cattle pose no threat to human health. However, the FDA is still investigating the health effects of BST on the animals themselves. In addition to the FDA's finding, the EC's Veterinary Advisory Committee, a group consisting of EC farmer, veterinarian, and consumer representatives, gave preliminary approval in March to the hormone's use.

EC officials, particularly Agriculture Commissioner Raymond MacSharry, continue to harbor serious reservations over future use of BST in the Community. They fear that wide-scale use of the hormone by large EC farms could force smaller dairy producers out of business. In addition, they are concerned that use of BST in cattle could reduce the nutritional quality of their milk and that the response of EC consumers to milk from BST-treated cattle could be very negative. A consumer scare over milk from cattle treated with the hormone could exacerbate the already serious EC surplus in dairy products, the officials fear. These economic concerns appear to form the basis for the EC's introduction of socioeconomic considerations to the BST debate. Finally, EC officials note that, despite the FDA's earlier finding of "no threat" to human health from the substance's use, BST has yet to be granted formal approval for use in the United States.

In order to become official policy, the moratorium would first have to be formally proposed by the EC Commission, an action that at present is not assured. Although the proposed restriction has a number of influential proponents within the Community, it has its detractors as well. Among the opponents are John MacGregor, the United Kingdom's Farm Minister, who has stated that EC farmers should be free to use the most advanced technologies available in their operations. In addition, arguments made by the EC biotechnology industry that enactment of the BST moratorium could inhibit future research and development in biotechnology areas will more likely assist in countering the promoratorium sentiments of agricultural and consumer groups. Assuming that the BST moratorium clears the EC Commission, it would then go to the individual member states for review. Following examination and a vote by the European Parliament on the entire proposal, including suggested revisions by the member states, the EC's Council of Ministers would take the final step to formally adopt the ban. The entire process of adopting the proposed ban could take several months, from the date of formal proposal by the EC Commission to the date of official adoption by the Council of Ministers.

EC Proposes Phase Out of Multifiber Arrangement

Uruguay Round negotiations on textiles recently took an important step forward with the submission of a detailed proposal by the European Community (EC). The paper—submitted to the Uruguay Round Negotiating Group on Textiles and Clothing on July 24—outlines the EC's proposal for phasing out the Multifiber Arrangement (MFA), the agreement that currently regulates world trade in textiles. According to the paper, the integration of textiles trade into the GATT must be accompanied by a strengthening of rules and disciplines within the GATT.

The EC paper argues that a general framework organizing the gradual process of textiles integration into the GATT must encompass both the progressive elimination of existing restrictions and the implementation of strengthened GATT rules and disciplines. Negotiations will determine the number, duration, and content of the steps in the integration process. However, political and economic events will determine the exact timetable of the transition period. The Community currently expects the integration process to begin after the Uruguay Round has officially concluded,

sometime in late 1990. For this reason, the EC also believes that a new MFA will have to be negotiated since the current MFA IV expires in July 1991. A special committee, modeled after the current Textiles Surveillance Body, would be established to monitor the integration process and ensure that commitments are fulfilled.

The goal of making textiles trade subject to GATT rules and disciplines requires that all trade restrictions affecting textiles that are incompatible with GATT rules be eliminated. The EC proposal cites two methods by which existing restrictions could be eliminated: first, reduce and eliminate existing restrictions progressively; and second, convert existing restrictions into other more transparent forms of protection (e.g., tariffs), and then reduce and eliminate these new restrictions progressively.

The EC paper also examines the need for a transitional safeguard mechanism "to ensure the orderly development of trade, to avoid the disruption of markets and to allow the restructuring of the industry to continue." The safeguard mechanism would allow for consultations should markets be disrupted, and in the event of failed consultations, would provide that the importing country could restrict imports for a limited period. The EC paper also stated that it should be possible to negotiate bilateral agreements in order to avoid excessive application of the safeguard provisions.

The strengthening of GATT rules and disciplines must take place across all sectors but is particularly vital to the success of the textiles integration process, according to the EC paper. Citing "major increases" in imports of textiles into the EC resulting from recent liberalization measures, the paper warns that "it might be difficult to pursue [the integration process] without a substantial strengthening of current GATT rules and disciplines." Three major areas were cited where tightening GATT rules is necessary. First, action on tariffs, nontariff barriers, and derogations for balance of payments and infant industry reasons must be taken to ensure effective, open markets. For example, certain textile-exporting countries impose particularly high tariff rates on imported textiles, thus protecting domestic firms and creating large export industries. GATT rules must also be strengthened on subsidies and antidumping procedures, access to raw materials, and the protection of intellectual property in order to ensure the creation of fair competitive conditions. Finally, safeguards must be improved. Efforts are currently under way to produce a general discipline on safeguards during the Uruguay Round. The transitional safeguards mechanism for the textiles sector mentioned above would eventually be replaced by this broader discipline.

Some member countries of the Bureau of Textile Exporting Countries, a group of about 20 developing-country textile exporters, called the EC plan incomplete for neglecting to provide important details on how and when the MFA could be phased out. India opposed the proposal for linking progress in the textiles area to progress in strengthening GATT rules, such as safeguards. U.S. officials had no comment since the United States has not yet formulated its position on textiles negotiations. GATT sources, on the other hand, hailed the EC's proposal as the first significant comprehensive proposal for the textiles sector by a major trading player. The paper also sets in concrete the EC's position supporting phaseout of the MFA.

Formulation of the EC's position required arduous negotiations among the Community's 12 member states. The EC's southern member countries warned that large increases in developing-country imports could seriously threaten their local industries should the MFA be eliminated. Other EC nations argued in favor of phasing out the MFA as long as the end of the MFA is accompanied by increased protection under GATT through the strengthening of GATT rules. Just days after the EC submitted its paper to the Uruguay Round negotiating group, the British Apparel, Knitting and Textiles Alliance (AKA) announced it would circulate a paper to the British Government and the EC Commission demanding that the MFA not be abandoned until GATT rules are strengthened. The AKA paper, calling for tighter rules in such areas as dumping, subsidies, intellectual property, and excessive tariffs and nontariff barriers, covers many of the same points as the EC paper, although it may envisage an even more rigorous strengthening of GATT rules.

The EC paper will be discussed in September at the next meeting of the Uruguay Round negotiating group on textiles.

"Tariffication" of Agriculture

At the July 10–12 meeting of the Agriculture Negotiations Group (a GATT negotiating group in the Uruguay Round), the United States presented a new proposal for farm reform, tariffication of agricultural aid. "Tariffication" refers to the conversion of nontariff import barriers into tariffs. Examples of import barriers the United States plans to convert to tariffs include quotas, voluntary restraint agreements, restrictive licensing practices, variable levies, and other import restrictions and prohibitions. Export subsidies and price control programs will be addressed at a later date. Under the program, the equivalent fixed tariff would be determined by subtracting the world price of an agricultural product from the higher domestic price. The difference would then be expressed as a percentage of the world price. Negotiations similar to those addressing industrial products would then be conducted with the goal of progressively reducing the new agricultural tariff. The ultimate goal of the U.S. tariffication scheme is to completely phaseout the

agricultural tariffs, thereby allowing all farm products to be influenced by the market forces of supply and demand, rather than the dictates of government policies.

An impetus to the U.S. tariffication plan has been the high cost of agricultural subsidies. During a meeting with the American Farm Bureau Federation (AFBF), United States Trade Representative Carla Hills explained that tariffication is a way to convert access barriers into monetary terms. With negotiated reductions of the new tariff, the cost of the support programs can be decreased, thereby easing their burden on the U.S. Government budget. Ambassador Hills also tried to reassure the farm group that the United States would not reduce its farm supports until other nations did likewise. U.S. trading partners have suggested that the tariffication scheme should be applied to American dairy and wheat sectors before it is implemented worldwide. The United States does not support this unilateral action. As Ambassador Hills told the AFBF, "Tariffication is just a method of seeing what the subsidies are. We can sit at a table and show them what it looks like, but I don't see any reason for us to change our process unless they change theirs."

Opposition to the U.S. proposal was voiced by other delegates, such as the European Community (EC), and by U.S. farm groups. The EC opposes the U.S. plan since tariffication encompasses variable levies, which increases the price of the imported good to the same price level of the domestic good. These levies are an integral element of the EC's common agricultural policy. United States farm groups are voicing their concerns that the United States is "selling out the farm." Agriculture Secretary Clayton Yeutter has been dubbed the "archenemy of the American farmer," especially after his comment to Farmers Union leaders that "farmers would have to live with lower income until export sales increase." Secretary Yeutter has been attempting to reassure farmers that the United States will not abandon its agricultural supports until other countries dismantle theirs and has repeatedly voiced the slogan, "We will not unilaterally disarm."

The EC also has its own plan for reform within the agricultural sector. The EC approach uses an "aggregate measure of support" (AMS), which would compare the several different forms of aid given to farmers and would provide a common denominator for the comparison. The measurement would be based on a fixed external reference price for each product. Negotiations would then proceed on reducing this measurement. However, the EC proposal would cut only aggregate levels of internal farm supports, not specific programs.

The United States does not support the EC program since it covers too few policies and products. The EC plan only focuses on major commodities such as cereals, rice, sugar, oilseeds, beef/veal, and milk. Other products would be subject to another approach that has not yet been determined. In addition, the U.S. administration opposes the idea of using a fixed external reference price as the benchmark that would be used to measure internal subsidies.

The U.S. and EC proposals are both geared toward accomplishing the goal of farm trade reform. Both sides agree that reform should make "substantial progressive reductions in support and protection to correct and prevent distortions in world agricultural markets." Ministers of over 100 countries have expressed their desire to bring agriculture under GATT, i.e., subjecting agriculture to the same GATT guidelines as other sectors. Currently, GATT principles such as national treatment, most-favored-nation status, and the prohibition of quotas are usually not applied to the agricultural sector.

During the Midterm Review in Montreal in December 1988, agriculture was one area of disagreement that prompted a postponement of an overall agreement. In April 1989, the ministers were able to work out an agreement, but only after intense negotiations. With agricultural trade barriers costing world treasuries an estimated $150 billion, budget pressures may provide the incentive to look beyond safeguarding the local economy, and move the agricultural sector into a liberalized world market of free trade.

Recent Developments in the Uruguay Round

Many nations express desire to join GATT

As the Uruguay Round progresses, interest in joining GATT increases. Fourteen countries have expressed a desire to become members of GATT, the international organization for trade. Bolivia seems assured of membership, in that the GATT council adopted the working party report that set out the terms for accession into GATT. The member countries of GATT must approve Bolivia's membership by ballot, but this is usually just a formality once the council has accepted the working party report.

Another country attempting to enter into GATT during this multilateral trade round is Venezuela. This country formally applied for membership on June 22, 1989. Ambassador Miguel Rodriguez Mendoza, Venezuela's chief negotiator on Venezuela's membership, reported that his country is undergoing economic reform that will open up Venezuela's markets to foreign competition.

Costa Rica and Tunisia have both applied for membership, but no working party report has been accepted. Algeria, Bulgaria, Paraguay, El Salvador, Guatemala, Honduras, Nepal, and Laos have all expressed a desire to join the international trade organization. Interest in GATT

membership by two countries has received considerable attention. China expressed an interest in rejoining (they were one of the original signers of the GATT in 1947), but their application has been put on hold because of recent political events. The Soviet Union's request to enter prompted a cool reception from the United States and other GATT members. The Soviet economy is not seen as an open market where foreign goods could compete with local goods.

Trade policy reviews

At the Midterm Review in December 1988, the Ministers reached agreement on a system for trade policy reviews. The Trade Policy Review Mechanism (TPRM) is designed to strengthen the GATT system and replaces the yearly special sessions of the council which examined world trade policies. As part of the December agreement, the United States volunteered to be the first nation to have its trade policies reviewed and evaluated. David Woods, GATT spokesman, also announced that Australia and Morocco would have their trade policies scrutinized by GATT.

Each country will submit a report on its trade policies. The report will include the objectives of national trade policies, a description of the import and export system, domestic laws and regulations governing the application of trade policies, and the implementation of the policies. The GATT secretariat will analyze the report, visit with each country's officials and then prepare its own summary. The TPRM is not intended as a basis for enforcing specific GATT obligations, nor is it for dispute settlement.

The schedule for 1990 calls for Sweden and probably a South American country to be reviewed in the spring. Canada, Hong Kong, Japan and New Zealand will prepare reports for the summer. The countries to be examined in the fall are Hungary, Indonesia, and the EC.

The four most developed members, the United States, Japan, the EC, and Canada, will be examined every 2 years. The next 16 largest countries will be analyzed every 4 years and the remainder will be examined every 6 years. The least developed countries may obtain special waivers if they are unable to meet these guidelines.

Schedule for rest of Uruguay Round

A timetable for the duration of the Uruguay Round has been approved by the GATT members. Director General Arthur Dunkel announced at a press conference that the Uruguay Round will finish by the end of 1990 with a ministerial meeting set for Brussels from November 26 to December 8, 1990. The work for the remaining Uruguay Round will be divided up into three areas. During September through December 1989, all governments will clarify their positions, i.e., prepare position papers on all outstanding issues. The four main areas that have had the least amount of progress are those same areas that postponed an overall agreement at the Montreal Midterm Review in December 1988. These areas are agriculture, textiles and clothing, safeguards, and trade-related aspects of intellectual property. The EC has submitted a proposal to phase out the Multifiber Arrangement within the textiles and clothing area. Both the EC and the United States have proposed plans for farm reform. Some progress has been made in the areas of safeguards and intellectual property.

The second phase for the Uruguay Round will take place from January to July 1990. During this time, "significant negotiations" will be aimed at resolving the differences that have been put forward in each country's position papers. Deals will be struck and a draft agreement is expected to be written during this time period. The last four to five months of 1990 will be used for "polishing up" all draft agreements in preparation for a package of accords that can be approved at the ministerial meeting in Brussels.

The United States has signaled its strong commitment to this timetable. Warren Lavorel, coordinator of the Uruguay Round negotiations for the Office of the U.S. Trade Representative, stated that there is "an extremely strong commitment of U.S. support for the success of the talks." The United States has stated that it will have all of its negotiating proposals on the table by December 1989.

If the talks should run over into 1991, the President would have to ask Congress for an additional three years of negotiating authority. As it is, the Bush administration has to notify Congress by March 1, 1991, if any agreements were reached in GATT talks. These agreements would then have to be ratified by Congress.

United States and Switzerland Table TRIMs Proposals

Efforts to regulate trade-related investment measures (TRIMs) have recently been addressed in the Uruguay Round and have caused a considerable amount of controversy. Many nations, especially developing nations, contend that investment policy is directly tied to the question of national sovereignty. However, there are members of GATT who support the removal of obstacles to foreign investment, and the United States, with an ambitious proposal made on July 10, is leading the group. TRIMs are trade-distorting measures such as local content requirements, local equity requirements, domestic procurement specifications, and export performance requirements.

In broad terms, the U.S. proposal supports the creation of a new set of international regulations outlawing all trade-distorting policies, i.e., policies that either reduce imports, reduce exports or increase exports. Discussion of other measures centers on requirements that foreign investors

must—(1) purchase a certain percentage of their production inputs from the domestic market; (2) use certain of their export earnings to purchase imported materials; (3) export a certain percentage of their production; (4) export to particular countries or regions; and (4) supply the local market with a certain percentage of its production.

The U.S. proposal further stipulates that TRIMs that are not eliminated entirely should be used only in a nondiscriminatory fashion and in ways that will not thwart efforts toward trade liberalization. The U.S. delegation asserts that its recommended prohibitions should apply to all investors, foreign and domestic, and should concern all member nations of GATT, regardless of their level of economic development. The United States concedes that developing countries may be allowed dispensation from certain of the new rules for a limited time only.

Although the U.S. proposal emphasizes that "a two-tier structure of disciplines or broad, permanent exemptions for developing countries is bad for the international trading system and contrary to development," there are many delegations speaking out in opposition. Several nations, including India, Brazil, and Egypt, criticized the United States for going far beyond the mandate bestowed on the negotiators. India and Brazil underscored that the TRIMs negotiating body of the GATT has not even arrived at its determination of the adverse effects of TRIMs, thus accusing the United States of acting prematurely. Relations between the United States and the Governments of India and Brazil have been particularly strained since the May 25 announcement of the United States that India and Brazil are marked as "unfair traders" under the Super 301 provision of the U.S. Omnibus Trade and Competitiveness Act of 1988.

At the same meeting, the Swiss delegation also presented a paper with its suggestions concerning TRIMs. The Swiss proposal breaks TRIMs down into three categories: (1) those that are unlawful under GATT because they distort trade; (2) those that are legal under GATT, but could be challenged under the GATT dispute settlement process; and (3) those that are permitted because they influence only the initial decision to invest and not actual business decisions made thereafter. Japan is expected to propose its plan for the prohibition of certain investment measures to the negotiating group in September of this year, when the TRIMs negotiating group is planning to hold more detailed deliberations.

The current attempt to create rules governing TRIMs was put on the negotiating agenda at the 1986 GATT ministerial meeting in Punta del Este, Uruguay. At the meeting, the ministers agreed that "following an examination of the operation of GATT Articles related to the trade restrictive and distorting effects of investment measures, negotiations should elaborate, as appropriate, further provisions that may be necessary to avoid such adverse effects on trade." At the Midterm Review of the Uruguay Round, concluded earlier this year, the ministers further agreed to continue identifying trade-distorting or restrictive measures and studying ways to avoid their adverse effects. They also called for submission of detailed, written proposals by participants in 1989, of which the U.S. and Swiss offers are the two most recent examples.

U.S.-Canada Subsidies Negotiations Highlighted

Article 1907 of the U.S.-Canada Free Trade Agreement (FTA) sets as a goal the harmonization of both countries' trade laws in the area of antidumping, subsidies, and countervailing duties. The provision establishes a timeframe of five to seven years for developing a "substitute system of rules" for both countries to apply with respect to this particular subset of unfair trade cases. This is an ambitious project. The subject of subsidies was the major stumbling block of the FTA negotiating process. The length of time allocated for agreement in this area is indicative of the contentiousness of the issues involved.

Increasing attention is being devoted to the subject of subsidies as each country prepares to carry out the mandate of the Agreement. A recent seminar in Washington highlighted some of these issues and provided insight into the opportunities for bilateral consensus insofar as subsidies and countervailing duties (CVDs) are concerned. The seminar brought together a number of trade practitioners—academics, lawyers, and experts—before an audience of interested observers, many of whom were willing to add their own thoughts to those of the invited panelists.

The principal paper at the seminar was prepared by Colleen Morton of the National Planning Association. Four main points were presented: (1) the current CVD regime in both Canada and the United States is not economically rational; (2) a whole new set of criteria is needed to assess the issue; (3) any sanctions that flow from the process must be aimed at the offending subsidy, and not toward protecting a domestic industry; and (4) the GATT system of handling subsidies is totally inadequate. Given the volume of trade between the two countries, the number of CVD cases instituted on either side of the border in the last several years (14 in the United States, 1 in Canada) is relatively small. The problem appears to be much more political than economic. Morton's proposal called for establishing a bilateral commission on trade distorting practices. The principal mandate of the commission would be to gather facts on the existence of practices and policies in both countries. Once an agreement was achieved on the exis-

tence of certain distorting practices, steps could then be taken to alleviate such practices.

Other panelists called for specific remedies including sector-specific suggestions (e.g., abolishing locational subsidies in the auto industry; granting permission to subsidize in the natural resources areas if equal access can be provided to both sides; authorizing government support in research and development, if the results of the R&D are made equally available on both sides of the border). Other suggestions included increasing the *de minimis* level of subsidization to 2 or 3 percent; capping allowable subsidies at a certain percentage; establishing a totally new system, perhaps one similar to the EC's (a system where the process is less driven by private petitioners, where more self-discipline is present, and where there is less incentive for producer collusion and cartel-like behavior).

Although no unanimity among seminar participants was achieved with regard to common suggestions for the negotiators and policymakers, there was agreement that the issue of subsidies and countervailing duties is one that is not going to go away soon. Neither Canada nor the United States is politically willing to dismantle completely its programs of government support. The issue, however, is receiving far more attention than its economic significance would dictate. Since the FTA entered into force, only three CVD cases have been instituted. One participant suggested redirecting some of the effort currently expended on the "bureaucratization" of these cases to helping affected firms/industries adjust to existing competition.

The issue of subsidies and CVDs is also receiving considerable attention in the current Uruguay Round negotiations in Geneva. Although a bilateral resolution of the issue between the United States and Canada might lead to further multilateral agreement along similar lines, the possibility of an expanded agreement is unlikely due to the timing of the two processes. The Uruguay Round is scheduled to be completed by the end of 1990, whereas the U.S.-Canada effort will extend considerably beyond that date. It has been suggested that whatever is achieved with the GATT subsidy negotiations will become the starting point for the U.S.-Canada working group deliberations.

Outlook is Limited for Section 936 Financing of Caribbean Investments

The Caribbean Basin Economic Recovery Act (CBERA), which entered into effect on January 1, 1984, was implemented to promote economic development in Caribbean and Central American countries. By granting duty-free access to selected imports from beneficiaries, the CBERA was designed to promote trade and investment in the Caribbean Basin. In support of this goal, Puerto Rico also implemented policies encouraging investment in CBERA countries. Puerto Rico's support for the CBERA derives in part from a provision in the U.S. tax law concerning taxation of business operations on the island.

Under section 936 of the U.S. Internal Revenue Code, qualified domestic corporations may take a credit equal to the portion of their U.S. tax that is attributable to income earned by subsidiaries in U.S. possessions. Section 936 was intended to encourage reinvestment of profits to further economic development of the possessions. In Puerto Rico, firms may also qualify for an exemption from the island's taxes of up to 90 percent for 10 to 25 years. However, earnings repatriated to the mainland United States are subject to a Puerto Rico "toll gate tax," which declines from a maximum of 10 percent the longer the funds are retained in Puerto Rico.

Because section 936 companies can effectively retain their earnings in Puerto Rico tax-free, large deposits of section 936 profits (936 funds) have accumulated in Puerto Rican banks. As of December 31, 1988, 936 funds not repatriated from Puerto Rico totaled $14.5 billion. Most of these funds ($9.47 billion) were deposited in the island's financial institutions. The remainder were invested directly by the section 936 companies. The 936 funds are lent by commercial financial institutions and the Government Development Bank for Puerto Rico (GDB) at concessionary rates, usually around 80 percent of market rate. All section 936 loans must be approved by the Administrator of the Economic Development Administration of Puerto Rico (Fomento) and Puerto Rico's Commissioner for Financial Institutions.

During the drafting of the Tax Reform Act of 1986, budgetary pressures prompted Congress to consider repeal of section 936. To avoid repeal of the tax provision, Puerto Rico suggested that section 936 funds be used to finance investment in the CBERA beneficiaries as well as in Puerto Rico. Thus, section 936 was amended in the Tax Reform Act of 1986 to allow 936 funds generated in Puerto Rico to be invested in active business assets or development projects in CBERA beneficiaries that have signed Tax Information Exchange Agreements (TIEAs) with the United States. The CBERA projects may be either complementary with an existing operation in Puerto Rico or stand alone. Since the 1986 Act became effective on January 1, 1987, however, only six private-sector projects in CBERA countries, totaling $124.1 million, have received approval for section 936 financing.

Given the amount of 936 funds in Puerto Rico, both the number and the value of 936 financed projects in CBERA countries are far below expectations. The reticence of many CBERA beneficiaries to negotiate TIEAs and the absence of published regulations have often been cited as major reasons for the low utilization of 936 funds for investment in the Caribbean. To date, only

four CBERA countries have TIEAs with the United States: Barbados, Jamaica, Grenada, and Dominica. Many Caribbean countries are reluctant to sign TIEAs with the U.S. Treasury because of fears that the agreement would force them to change their tax system or reveal sensitive income data. In some instances negotiation of such agreements has become an issue of national sovereignty.

Further, guidelines for section 936 financing of projects in CBERA countries are still not complete. In June 1988, the Commissioner of Financial Institutions and Fomento drafted their final version of "Qualified CBI Loans Regulation." The U.S. Treasury, however, has not yet released implementing regulations and so is handling project approvals on a case-by-case basis.

More fundamental obstacles to financing CBERA projects with 936 funds exist, however, such as a lack of economically viable projects; the high risk associated with investments in CBERA countries; the mismatch of short-term 936 deposits with the long-term financing needs of CBERA projects; and the uncertainty surrounding the continuation of tax preferences under section 936. Although the Government of the Commonwealth of Puerto Rico is authorized by Federal law to regulate the 936 funds market on the island, there is a widely-held misperception that the Puerto Rican Government owns and therefore controls disbursement of the 936 funds. Rather, the 936 funds are the sole property of the 936 firms. Moreover, since the section 936 firms deposit the bulk of their profits with commercial financial institutions, it is the private banks that are primarily responsible for project lending decisions. Since the banks view section 936 loans on strictly commercial grounds, they require these loans to satisfy comercial viability and creditworthiness criteria. Many participants in the 936 financing process argue that a major problem to date has been a lack of economically viable projects. In many CBERA countries, inadequate infrastructure and overall low levels of development act to undermine project viability.

Even if a particular project appears viable, the banks, which are accountable to shareholders, are reluctant to accept the foreign exchange and political risk of loans to the developing countries of the CBERA. Therefore to obtain 936 loans for projects in CBERA countries, commercial and investment banks generally require some form of credit enhancement—a significant hurdle for small- and medium-sized investors in the Caribbean.

Another problem noted by some of the 936 financing participants, is the short-term nature of 936 deposits. As of yearend 1988, approximately 80 percent of the 936 funds in Puerto Rico were deposited in financial instruments that matured in less than three years. Other estimates place 60 to 70 percent of the 936 funds in 90-day instruments. Banks then are faced with the dilemma of providing loans for periods of 5 to 10 years with deposits that are guaranteed for only a short time. Given the fungibility of deposits, this imbalance will only pose a serious problem if there are mass withdrawals. The uncertainty surrounding the continuation of section 936 raises that possibility.

Since repeal of section 936 was sought in 1985–86, section 936 firms are sensitive to the possibility of another repeal drive and are hesitant to commit resources for the long term. Even if section 936 is not repealed, the U.S. Treasury may implement regulations that will effectively curb the amount of profits claimed by operations in Puerto Rico, thus limiting the pool of funds for future project financing. In its October 1988 "White Paper," the U.S. Treasury advocated a transfer pricing policy that many 936 firms believe would emasculate the tax advantages of section 936. Uncertainty over section 936 has also been further heightened by proposed legislation that calls for Puerto Rico to hold a referendum in 1991 to decide its political status. Under the statehood and independence options, section 936 would undoubtedly be terminated and its status under an "enhanced" commonwealth option is unclear.

Despite these problems, efforts are being made to provide 936 financing to more CBERA projects. One such effort is a loan facility that has been under development by the First Boston Corp. Some 30 to 40 section 936 firms have tentatively agreed to provide $60 million in investment funds for project origination over a three-year period. As qualified projects are identified, the 936 firms will provide financing by purchasing prorata shares of notes. The Overseas Private Investment Corporation and the Government Development Bank for Puerto Rico are expected to each provide approximately $15 million in crucial loan guarantees. The facility received final approval from the Office of the Commissioner of Financial Institutions on October 13, 1988, although details are not expected to be finalized until the fall of 1989.

Concluding a greater number of TIEAs is essential to an expansion of the section 936 financing program for projects in CBERA countries. Equally essential, however, is the creation of innovative techniques for dealing with the underlying problems of the economic viability of CBERA projects, the inherent high risk of projects in CBERA countries, and uncertainty over continuation of the section 936 tax preferences. Even with more TIEAs, utilization of the vast pool of section 936 funds for investment in the Caribbean Basin will remain limited unless special new loan facilities and guarantees can be arranged.

STATISTICAL TABLES

Industrial production, by selected countries and by specified periods, January 1986–June 1989

(Percentage change from previous period, seasonally adjusted at annual rate)

				1988		1989						
Country	1986	1987	1988	IV	Dec.	I	Jan.	Feb.	Mar.	Apr.	May	Jun.
United States	1.1	3.8	5.7	4.5	4.4	2.2	5.3	-2.5	0.9	8.0	-1.7	-2.5
Canada	.8	2.7	4.2	2.3	0	4.0	6.7	0	4.7	-0.9	-0.9	0.9
Japan	-.3	3.4	9.4	7.3	11.9	13.2	11.8	-19.3	88.0	-37.4	11.8	13.9
West Germany	2.2	.2	3.1	1.9	33.4	10.3	15.2	-4.3	-6.3	20.2	-24.7	(1)
United Kingdom	2.3	3.4	3.8	-.8	-5.3	-5.6	-14.2	-3.2	4.5	6.8	-16.2	(1)
France	.9	2.2	4.3	-1.2	0	5.0	11.4	-10.2	-10.3	53.5	-19.1	(1)
Italy	3.8	2.6	5.9	2.9	16.5	-3.9	-27.3	19.2	-14.3	4.2	-9.9	(1)

[1] Not available.

Source: *Economic and Energy Indicators*, U.S.Central Intelligence Agency, August 11, 1989.

Consumer prices, by selected countries and by specified periods, January 1986–June 1989

(Percentage change from previous period, seasonally adjusted at annual rate)

				1988		1989						
Country	1986	1987	1988	III	IV	I	Jan.	Feb.	Mar.	Apr.	May	Jun.
United States	1.9	3.7	4.1	4.7	4.4	5.4	7.2	5.1	6.1	8.1	7.0	2.0
Canada	4.2	4.4	4.0	4.4	3.9	5.2	7.6	5.7	6.3	4.2	9.5	8.4
Japan	.6	.1	.7	.7	3.1	-2.2	-2.3	-3.5	7.3	23.4	3.5	-1.1
West Germany	-.2	.3	1.2	1.9	1.8	4.9	9.0	4.7	3.2	4.8	2.7	1.3
United Kingdom	3.4	4.1	4.9	8.6	8.3	7.4	8.9	7.8	7.3	9.5	10.0	7.9
France	2.5	3.3	2.7	3.8	3.0	3.7	3.7	3.8	3.7	4.4	5.2	1.8
Italy	6.1	4.6	5.0	5.9	6.6	7.2	6.6	8.8	7.2	8.9	9.7	6.8

Source: *Economic and Energy Indicators*, U.S.Central Intelligence Agency, August 11, 1989.

Unemployment rates,[1] by selected countries and by specified periods, January 1986–June 1989

(In percent)

				1988		1989							
Country	1986	1987	1988	III	IV	I	II	Jan.	Feb.	Mar.	Apr.	May	Jun.
United States	7.0	6.2	5.5	5.5	5.3	5.1	5.2	5.4	5.1	5.0	5.2	5.1	5.2
Canada	9.6	8.9	7.8	7.8	7.7	7.6	7.6	7.5	7.6	7.5	7.7	7.6	7.3
Japan	2.8	2.9	2.5	2.6	2.4	2.3	2.3	2.4	(2)	2.4	2.3	2.4	2.2
West Germany	7.0	6.9	7.1	7.1	7.0	7.9	8.0	6.5	6.4	6.3	6.0	6.1	6.1
United Kingdom	11.2	10.3	8.3	8.0	7.6	6.9	6.4	7.1	6.9	6.9	6.6	6.5	6.4
France	10.6	10.8	10.5	10.6	10.4	10.2	10.3	10.5	10.4	10.4	10.3	10.3	10.3
Italy	7.5	7.9	7.9	8.0	7.9	12.4	11.9	7.7	(2)	(2)	7.8	(2)	(2)

[1] Seasonally adjusted; rates of foreign countries adjusted to be comparable with U.S.rate.

[2] Not available.

Note.—Italian unemployment surveys are conducted only once a quarter, in the first month of the quarter.

Source: Statistics provided by Bureau of Labor Statistics, U.S.Department of Labor, August 1989.

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Trade balances, by selected countries and by specified periods, January 1986–June 1989

(In billions of U.S.dollars, f.o.b.basis, at an annual rate)

Country	1986	1987	1988	1988 I	1988 II	1988 III	1988 IV	1989 I	1989 Jan.	1989 Feb.	1989 Mar.	1989 Apr.	1989 May	1989 Jun.
United States[1]	-137.5	-152.2	-119.5	-131.0	-114.8	-111.4	-121.7	-111.2	-106.8	-112.8	-114.0	-99.6	-121.2	-98.4
Canada	7.1	8.3	7.2	7.2	8.4	10.4	3.2	8.0	12.0	4.8	3.6	0	3.6	(3)
Japan	92.5	96.2	94.6	99.6	86.4	90.4	102.0	98.0	99.6	120.0	79.2	90.0	67.2	76.8
West Germany[2]	52.6	65.6	72.8	64.4	78.4	71.6	76.4	80.0	91.2	81.6	75.6	72.0	55.2	(3)
United Kingdom	-12.6	-16.9	-36.0	-28.4	-32.0	-38.8	-44.8	-40.8	-44.4	-45.6	-34.8	-44.4	-33.6	-34.8
France	.1	-5.2	-5.8	-2.8	-4.0	-8.0	-8.4	-2.4	-4.8	-1.2	0	-.7	-12.0	-4.8
Italy	-2.0	-8.7	-10.0	-12.4	-4.4	-10.4	-14.0	-16.4	-22.8	-12.0	-14.4	-15.6	-18.0	(3)

[1] 1986, exports, f.a.s.value, adjusted; imports, c.i.f.value, adjusted.Beginning with 1987, figures were adjusted to reflect change in U.S.Department of Commerce reporting of imports at customs value, seasonally adjusted, rather than c.i.f.value.

[2] Imports, c.i.f value, adjusted.

[3] Not available.

Source: *Economic and Energy Indicators*, U.S.Central Intelligence Agency, August 1989, and *Advance Report on U.S.Merchandise Trade*, U.S.Department of Commerce, August 17, 1989.

U.S. trade balance,[1] by major commodity categories, by selected countries, and by specified periods, January 1986–June 1989

(In billions of U.S.dollars, customs value basis for imports)

Country	1986	1987	1988	1988 I	1988 II	1988 III	1988 IV	1989 I	1989 Jan.	1989 Feb.	1989 Mar.	1989 Apr.	1989 May	1989 Jun.
Commodity categories:														
Agriculture	4.5	7.0	13.9	3.0	3.3	3.1	4.5	1.6	1.4	1.5	2.0	1.6	1.3	1.3
Petroleum and selected products (unadjusted)	-31.8	-39.5	-38.1	-9.7	-9.9	-9.5	-9.0	-3.2	-3.2	-2.9	-3.4	-3.8	-4.4	-3.9
Manufactured goods	-134.3	-146.1	-146.7	35.0	-35.5	-36.8	-39.4	-8.4	-8.6	-9.5	-7.2	-6.7	-8.4	-8.4
Selected countries:														
Western Europe	-28.2	-27.9	-17.2	-4.0	-3.9	-4.6	-4.7	-.08	(2)	-.6	.3	.2	-.08	-.2
Canada[3]	-23.0	-11.5	-12.6	-3.8	-4.1	-2.6	-2.1	-.9	-1.8	-.8	-.2	-.4	-.7	-.6
Japan	-55.3	-58.0	-55.5	-13.1	-12.9	-13.3	-16.2	-4.1	-3.5	-4.6	-4.2	-3.9	-4.3	-3.9
OPEC (unadjusted)	-8.9	-13.7	-10.7	-2.6	-3.1	-2.8	-2.2	-1.0	-1.1	-.8	-1.0	-1.3	-1.8	-1.7
Unit value of U.S.imports of petroleum and selected products (unadjusted)[4]	$15.02	$18.12	$14.19	$15.10	$15.00	$14.07	$12.68	$15.17	$14.46	$15.08	$15.97	$17.83	$18.40	$17.67

[1] Exports, f.a.s.value, unadjusted.1986-88 imports, c.i.f.value, unadjusted; 1989 imports, customs value, unadjusted.

[2] Less than $50,000,000.

[3] Beginning with February 1987, figures include previously undocumented exports to Canada.

[4] Beginning with 1988, figures were adjusted to reflect change in U.S.Department of Commerce reporting of imports at customs value, seasonally unadjusted, rather than c.i.f.value.

Source: *Advance Report on U.S.Merchandise Trade*, U.S.Department of Commerce, July 18 , 1989.

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Money-market interest rates,[1] by selected countries and by specified periods, January 1986–July 1989

(Percentage, annual rates)

Country	1986	1987	1988	1988 II	1988 III	1989 IV	1989 Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.
United States	6.5	6.8	8.0	7.6	8.1	8.8	9.2	9.5	10.1	9.9	9.6	9.2	8.7
Canada	9.2	8.4	9.6	9.1	9.9	10.9	11.3	11.7	12.2	12.4	12.3	12.3	12.2
Japan	5.0	3.9	4.4	3.8	5.3	4.6	4.2	4.2	4.2	4.2	4.3	4.5	4.8
West Germany	4.6	4.0	4.3	3.6	5.0	5.1	5.6	6.4	6.6	6.3	7.3	6.9	7.0
United Kingdom	10.9	9.6	8.9	3.4	11.3	12.4	13.1	13.0	13.0	13.2	13.3	14.1	13.9
France	7.7	8.1	7.9	7.7	7.6	8.4	8.6	9.1	9.1	8.5	8.9	8.8	8.9
Italy	12.6	11.2	11.0	10.7	11.1	11.6	11.8	12.3	12.9	12.5	12.5	12.7	12.9

[1] 90-day certificate of deposit.

Note.—The figure for a quarter is the average rate for the last week of the quarter.

Source: *Federal Reserve Bulletin*, Board of Governors of the Federal Reserve System, August 1989, and *Federal Reserve Statistical Release*, Selected Interest Rates, Board of Governors of the Federal Reserve System, August 1989.

Effective exchange rates of the U.S.dollar, unadjusted and adjusted for inflation differential, by specified periods, January 1986–July 1989

(Percentage change from previous period)

Item	1986	1987	1988	1988 I	1988 II	1988 III	1988 IV	1989 Jan.	Feb.	Mar.	Apr.	May	Jun.	Jul.
Unadjusted:														
Index[1]	108.0	94.1	88.0	87.5	86.5	90.9	87.2	88.1	88.5	89.7	89.9	92.6	94.7	92.0
Percentage change	-16.5	-11.2	-6.5	-3.1	-1.1	5.1	-4.1	1.9	.4	1.2	.2	2.7.	2.1	-2.7
Adjusted:														
Index[1]	100.9	90.2	85.9	84.9	84.1	88.8	85.7	88.7	89.4	90.9	90.8	98.0	94.9	91.9
Percentage change	-17.1	-10.6	-4.8	-2.9	-.9	5.6	-3.5	2.4	.7	1.5	-.1	7.2	-3.1	-3.0

[1] 1980–82 average=100.

Note.—The foreign-currency value of the U.S.dollar is a trade-weighted average in terms of the currencies of 15 other major nations.The inflation-adjusted measure shows the change in the dollar's value after adjusting for the inflation rates in the United States and in other nations; thus, a decline in this measure suggests an increase in U.S.price competitiveness.

Source: Morgan Guaranty Trust Co.of New York, Aug 23, 1989.

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